

Can Hospital Mergers Deliver Real Value?

The answer is yes...if you do it right.



THE
CHARTIS
GROUP

There are no shortcuts around the hard work of integration.

Although the intention of merger and acquisition activity is to deliver real value (benefits in service expansion, care coordination, efficiencies and cost savings, capital avoidance, and population health), hospitals and health systems often fall short of realizing their vision for the future enterprise. It becomes lost in the morass of regulatory approvals, negotiations, and the focus on “getting the deal done.” In the process, they fail to answer the most critical questions: “What is our future vision for what we can achieve together? And how are we planning to successfully execute?”

Achieving the envisioned benefits of integration requires unwavering leadership commitment and rigorous planning to drive the new organization forward and realize all potential synergy value. This means looking and re-looking at opportunities to drive financial, operational, and clinical benefit from existing or prospective partnerships. Wise financial stewardship requires considering more than the relatively straightforward areas of savings, such as supply chain and finance. Organizations must be willing to tap every opportunity, including efforts in human resources and clinical ancillaries, as well as address politically sensitive or challenging areas, such as provider alignment and clinical service-line organization.

Clear goals, timely decision-making, and early planning around governance, operating philosophy, and management structure are all essential to guide the new organization through its post-merger integration journey. As described in [our case study later in this piece](#), the recent merger to create Beth Israel Lahey Health (BILH) — one of the largest and most complex provider mergers in New England history — provides a meaningful example of the importance of leadership focus and alignment, integration planning and infrastructure, and stakeholder engagement to realize promised benefits and value.

“What is our future vision for what we can achieve together? And how are we planning to successfully execute?”

Delivering on the Promise: Merger Integration Planning, Organization, and Structure

Pre-merger requirements and expectations can overwhelm merging organizations. A long list of “must haves” and supporting capabilities need to be in place just to get to Day 1, some of which include: new leadership, governance, and management structures; an internal and external communications strategy; and new financial reporting, legal requirements, and regulatory approvals. All this work must be completed in a manner that bridges different organizational cultures and ways of doing business — and begins to move the combined organization toward a common operating culture for the future.

AUTHORS’ NOTE: *Throughout this paper, we use the term “new organization” to refer to the post-merger, consolidated enterprise. There is a wide range of consolidation underway; the requirements and approach described in this paper are applicable, whether entities are coming together as equals to form a truly new enterprise or an existing enterprise is acquiring another organization and integrating it into its established structure. In all cases, we believe consolidation leads to a “new” enterprise, even if there is not an explicit name change.*

THE RISKS OF COMING TOGETHER (WHAT KEEPS YOU UP AT NIGHT)

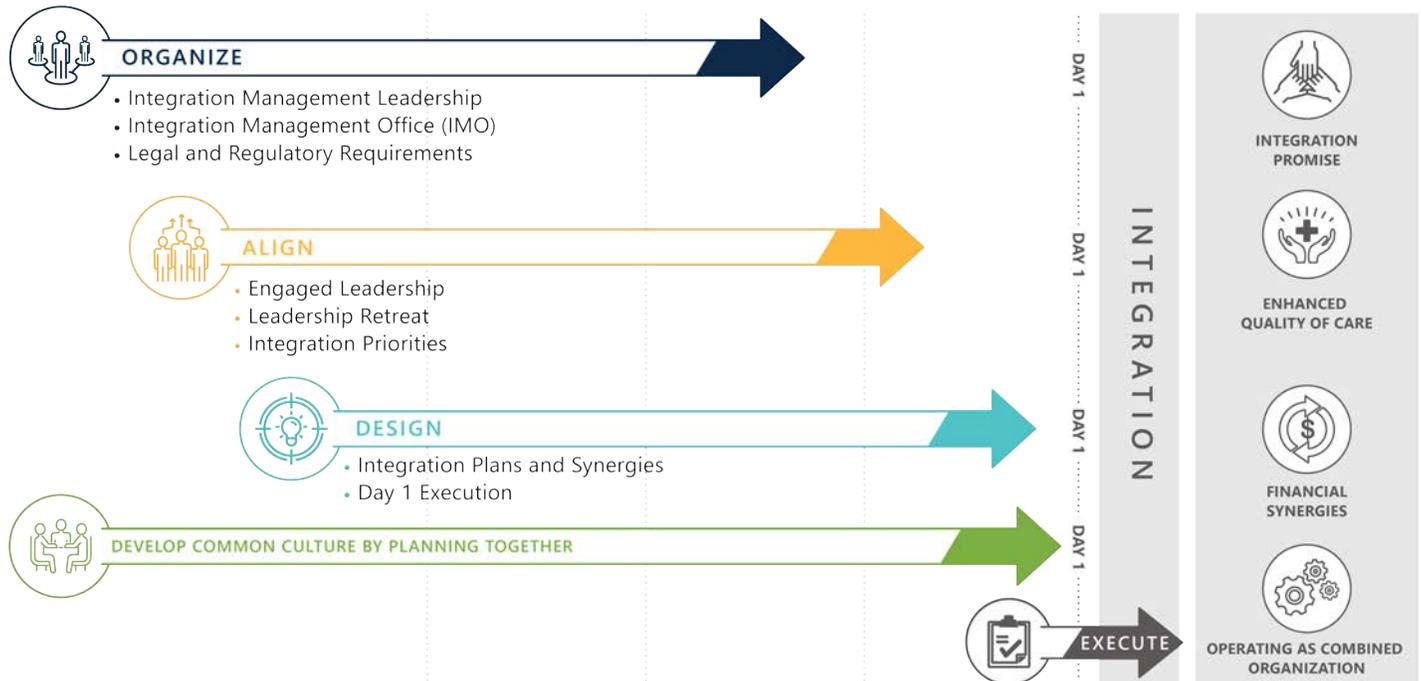
A myriad of uncertainties and risks are inherent in coming together. Navigating them requires a highly organized and structured integration planning effort that should begin as early as possible:

- Do we have the institutional fortitude to make and execute tough decisions?
- Are we prepared to move quickly to achieve expected benefits?
- What is our Plan B if we falter initially in certain areas?
- How do we address perceptions of internal “winners” and “losers”?
- How do we engage our physicians and staff?
- Will our managers and staff be able to handle the additional demands while maintaining current operations?
- Are there cultural divides that we need to bridge to effectively execute?
- How can we effectively communicate with and energize internal and external stakeholders?

Building the new enterprise requires significant dedication of time and resources from stakeholders across the combining organizations. Adding this major burden on top of staff and clinicians’ everyday responsibilities without diligent forethought and respect is a recipe for disaster. Sustaining momentum and implementing real change depends on early planning and organization, leadership alignment, dedicated resources, intentional design, effective communication, and timely execution. Each of these requirements can be a tall order for organizations just learning how to work together toward a shared set of goals and vision for the future.

The framework below can help organizations think through the critical steps, considerations, and resources required to realize the community benefits and financial synergies that are the promise of integration.

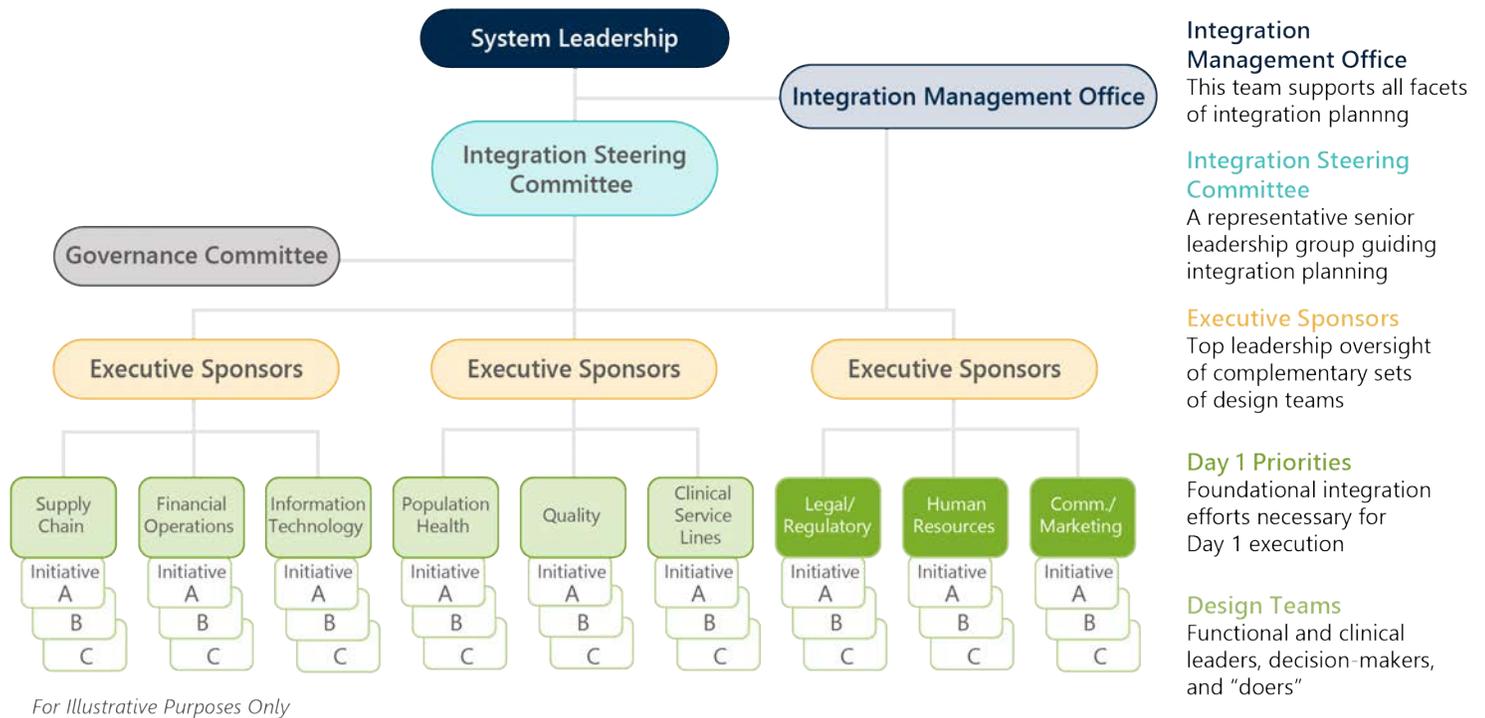
Figure 1: Critical Steps to Realize the Benefits of Integration



ORGANIZE

Establishing an integration leadership and management infrastructure to guide, support, and oversee the design and implementation of all integration efforts is an early step in the process. The Integration Steering Committee (which includes leaders and key stakeholders from across the different organizations) provides oversight, guidance, and accountability for the planning process. It defines the priorities for the future organization, offers executive input into the planning process, and ensures plans will achieve the desired synergies. A Governance Committee must establish the new board structure, decision matrices, and many other details for overseeing the new health enterprise.

Figure 2: Example Integration Infrastructure



Critical to success is the creation of an Integration Management Office (IMO) to serve as central command for the overall integration effort. A strong IMO provides the needed guidance, expertise, coordination, and management to ensure timely advancement and execution of all the integration initiatives. By facilitating the work of the Integration Steering Committee and the design teams, the IMO supports the organization to effectively work together to achieve its goals and future vision.

Many organizations find value in utilizing outside support to provide the experience, bandwidth, and structure needed to propel the realization of synergy opportunities — as well as bring perspective, objectivity, and balance to a highly charged environment.

Figure 3: Integration Management Office



ALIGN

Leadership must come together around a common understanding of where the new organization is headed and how it will get there. It is crucial that the leadership team dedicate the time needed to collaboratively determine priority areas of focus that will advance the organization toward achieving its strategic, operational, and financial goals.

The IMO serves as an important advisor and facilitator to leadership. It helps to distill information from across the organizations, identify and address risks and interdependencies, and prioritize the work to be done.

A leadership retreat is an important forum for:

- Building relationships and learning from each other.
- Aligning on vision and integration approach and principles.
- Reaching consensus on integration initiatives and priorities.
- Determining integration design teams and executive sponsors

DESIGN

Typically, the work of designing and building the new organization falls to design teams chartered by the Integration Steering Committee. There are a range of potential focus areas, often including but not limited to shared services, such as communications, marketing, strategic planning, human resources, and legal. Clinical services such as laboratory, imaging, and pharmacy should also be considered. The role of information technology (IT) is also a key area for evaluation and design, both as a specific shared service and a key enabler to unlocking operational and strategic synergies, as discussed in our related piece, [M&A Due Diligence: 7 Things the C-Suite Should Know About IT](#).

For some organizations, this is a chance to begin design with a “clean slate,” applying best practice (i.e., If you could newly design this function, process, workflow, etc., what would it look like?). For others, it is a chance to apply industry-leading knowledge or build upon an existing internal leading practice. For example, integration offers organizations an opportunity to build a [next-generation revenue cycle](#). Each design team is charged with developing detailed recommendations that are approved by the Integration Steering Committee and then translated into implementation plans with accountabilities, timelines, milestones, value realization/investment schedules, and key performance indicators.

The design team is critical to realizing the value of coming together. It is through these teams that the vision for the future is brought to life, from concept through execution. The IMO works closely with the design teams and plays an integral role in ensuring that designs will further the goals and vision of the new organization.

Throughout the process, the IMO provides structure, process discipline, facilitation, and subject matter expertise. Most importantly, the IMO is a neutral party that continually challenges the teams to approach the work with a focus on industry best practice and as a single organization. As the implementation roadmap is developed, the IMO provides guidance on sequencing and interdependencies across implementation plans and drives accountability through standard reporting mechanisms to monitor synergy realization.

DEVELOP A COMMON CULTURE

The collaborative planning process is designed to bridge the cultural gaps that can exist between legacy organizations with different histories, personalities, and ways of doing business. Bringing together individuals from across the organizations to participate in the planning process through committees and design teams helps develop the new organization’s collective operating culture. This in turn leads to a much greater level of comfort, functioning as a unified organization come Day 1.

Investment in stakeholder engagement (including physicians, other clinicians, administrators, and staff from across the historical organizations) starting with early negotiation through the integration process advances the organization down the integration path more quickly. The IMO plays an important role in shaping and facilitating internal communications and change management strategies to support the cultural change and readiness required to move forward as one organization.

Bringing together individuals from across the organizations to participate in the planning process through committees and design teams helps develop the new organization’s collective operating culture.

Realizing Your Future Vision: What's Required?

Mergers that lack careful integration planning and a structured process often lead to disappointing returns. Investing in early integration planning is crucial to realizing the vision for the future enterprise and the promised benefits to patients, providers, and the community. Dedicated resources support leadership in addressing the success factors listed below and can help organizations move confidently and rapidly toward their preferred future together:

1. Leadership and Vision

The importance of consistent involvement, focus, and commitment of leaders from across the organizations cannot be overstated. Gaining consensus on priorities and a shared vision for where the organization is headed and how it is going to get there is critical to advancing toward the future vision.

2. Integration Management Structure

An IMO is crucial to supporting and executing on the future vision, serving as advisor, manager, and coordinator for all aspects of the integration. The IMO manages the myriad of prioritized opportunities, supports the design teams, and monitors progress. It also provides expertise, facilitation, process discipline, and oversight.

3. Early Planning and Intentional Design

The integration design teams can work effectively together to design, build, and execute on priority initiatives when the following elements are in place:

- Focused, early planning around priority initiatives.
- Engagement of administrators, clinicians, and staff.
- Thoughtfully selected design team members and goals.
- Clear performance expectations.

4. Communication and Culture

Clear and transparent messaging through multiple channels and interactive discussions to reach a wide range of stakeholders (internal and external) helps build a common understanding and language to bridge natural cultural divides.

5. Performance Measurement

Measuring and monitoring progress toward defined performance goals is critical to full value realization. This includes reliable data sources and robust tools to ensure that metrics are embedded into daily workflows, processes, and regular reports.

6. Accelerated Transition

Speed is important. Demonstrating early wins and proactively managing risks while implementing action plans with clear accountabilities, major milestones, and timelines helps maintain organizational momentum and focus.

Intentional planning and organization early on positions the new enterprise to effectively execute on Day 1 and beyond.

CASE STUDY

THE CREATION OF BETH ISRAEL LAHEY HEALTH

BACKGROUND

In March 2019, Boston-based Beth Israel Deaconess Medical Center (BIDMC), Burlington-based Lahey Health (Lahey), Mount Auburn Hospital in Cambridge, New England Baptist Hospital (an orthopedic specialty hospital) in Boston, and Anna Jaques (a community hospital) in Newburyport came together to form Beth Israel Lahey Health (BILH). This historic partnership is designed to bring expanded services and meaningful value to their communities and ensure a stronger and more financially sustainable future for the provider organizations.

The new \$5.5 billion healthcare system serves 1.3 million patients through a network of 13 hospitals, including 4 academic and teaching hospitals; a physician enterprise of more than 4,000 affiliated physicians, ambulatory, and urgent care centers; homecare services; and a continuing care network. Leadership recognized that bringing these organizations together and realizing the future vision for the combined enterprise would require an extraordinary dedication of focus, time, and resources and an integration planning process that would position the new organization for success on Day 1 and beyond.

A RIGOROUS, DISCIPLINED APPROACH TO INTEGRATION PLANNING

The Chartis Group was engaged to partner with leadership to establish an integration management structure and guide leadership as they defined and articulated the future vision for the new enterprise, set goals and priorities, and established accountabilities. Chartis also supported an Integration Management Office (IMO) to provide facilitation support, industry perspective, project management, and data analysis to ensure effective and timely execution of integration initiatives.

An early leadership retreat set the tone for the work by forging a shared vision of the future. Immediately following the retreat, integration design teams were launched to focus on highest-priority areas. The work of designing the new organization engaged more than 220 team members from across the legacy organizations, through design teams covering 30+ areas of focus spanning a range of clinical services, shared administrative services, and clinical support services.

Based on the recommendation development and quantification work of the design teams, ambitious 5-year financial impact targets were set for both clinical and administrative/operational functions. The focus on meaningful stakeholder involvement, ownership, and relationship-building allowed the organization to move rapidly to execution of priority integration initiatives following close.

EARLY RESULTS

At the one-year checkpoint, BILH was already having a significant positive impact on the community through expanded programs and improved service and was on track to achieve its financial, operational, and service-level post-integration performance targets.

Sources of Early Synergy Achievement in Year 1 (FY2020)

Supply Chain: Approximately 5% savings in overall supply chain expense through consolidation to a single Group Purchasing Organization.

Pharmacy: Pharmaceutical expense savings of 4–5% were expected.

Lab: Consolidating to a system reference lab was expected to yield considerable savings and efficiencies.

Finance Operations: Approximately 23% savings due to external audit consolidation and 7% savings on internal audit; some additional savings on commercial insurance brokerage fees.

Human Resources: Double-digit savings were expected on health insurance, plus additional savings due to retirement benefit management expense savings.

Behavioral Health: Stood up 6 additional primary care practices with embedded care model.

Musculoskeletal: Established Quality Collaborative, and were planning to open additional affiliated sites of care.

Authors



Ann Edwards
Director
aedwards@chartis.com



Gene Corapi
Former Principal



Katie Sklarsky
Associate Principal
ksklarsky@chartis.com



Cynthia Bailey
Practice Manager
cbailey@chartis.com

About The Chartis Group

The Chartis Group® (Chartis) provides comprehensive advisory services and analytics to the healthcare industry. It brings critical thinking and deep industry experience paired with cutting-edge data, analytics, and technology to deliver #NextIntelligence. With an unparalleled depth of expertise in strategic planning, performance excellence, health analytics, informatics and technology, digital and emerging technologies, clinical quality and operations, and strategic communications, Chartis helps leading academic medical centers, integrated delivery networks, children's hospitals and healthcare service organizations achieve transformative results and build a healthier world. Chartis has offices in Atlanta, Boston, Chicago, New York, Minneapolis, and San Francisco.

Connect with us: www.chartis.com | [LinkedIn](#) | [Twitter](#) | [YouTube](#)

© 2021 The Chartis Group, LLC. All rights reserved. This content draws on the research and experience of Chartis consultants and other sources. It is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

